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7 January 1985

MEMORANDUM FOR: David Low

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FROM:

SUBJECT: New Initiatives on LDCs

After reviewing our work for 1984 on economic changes in the less developed countries, I am convinced that we need a more structured way to handle the question of economic reform. We should do this by adopting a checklist of reforms to measure progress or backsliding in government intervention in LDC economies. The focus of the effort should be to understand the direction of government policies with an eye to their implications for growth and trade. In terms of timeframe, we should look at the developments over the last 4 years which created the revolutionary reversal in trade balances and analyze recent changes and those proposed for 1985 for any signs of backsliding or, alternatively, a snowballing of the trend toward a reduction of government control.

A limited checklist would help identify trends in the LDCs. In some cases, only ordinal or directional changes would be noted. Checklist items should include:

1. The foreign exchange rate
 - a. How much has the currency been devalued in real terms?
 - b. If an official or dual rate is maintained, how has it tracked with the free market rate?
2. Domestic prices for key commodities
 - a. Have prices for key agricultural commodities moved closer to world market levels both for consumers and producers?
 - b. Have petroleum product prices been moved toward free-market levels?

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3. Wages

- a. How have wages in industry performed relative to inflation and productivity?

4. Investment

- a. Have there been changes in the rules regarding foreign investment?
- b. Is the government changing its share of investment spending? Here we may have to look at new initiatives rather than ratios of public to private which may be heavily influenced by past investment decisions.

I believe this work would bring us into a new phase of effort on monitoring LDC debt and factors influencing repayment.



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